

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

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LIMITED OFFICIAL USE SECTION 1 OF 2 EC BRUSSELS 6332

E.O. 11652: NA

TAGS: EFIN, EEC

SUBJECT: RESULTS OF EC FINANCE COUNCIL MEETING ON JULY 10

REFS: A. EC BRUSSELS 6232 B. EC BRUSSELS 6273

C. EC BRUSSELS 5626 D. EC BRUSSELS 6135

E. EC-A-252, JUNE 30, 1975

F. ROME 9990

1. SUMMARY: THE MAJORITY OF EC FINANCE MINISTERS AT THEIR BRUSSELS MEETING JULY 10 SAID THAT THEY PLAN TO HOLD OFF ON FURTHER EXPANSIONARY MEASURES UNTIL THE CURRENT EDONOMIC SITUATION BECOMES CLEARER. SEVERAL DELEGATIONS, INCLUDING THE UK, IRELAND AND ITALY, HOWEVER, CALLED FOR PROMPT EXPANSIONARY MEASURES. THE COUNCIL WELCOMED FRANCE BACK INTO THE SNAKE. FRANCE AGAIN CALLED FOR A TARGET RATE AGAINST THE DOLLAR AND SAID CONTINUED UNCONTROLLED FLOATING AND UNDER-VALUATION OF THE DOLLAR WERE A THREAT TO WORLD TRADE. LITTLE PROGRESS WAS MADE ON AN EC POSITION' ON INTERNATIONAL MONETARY REFORM. THE COUNCIL
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AUTHORIZED THE COMMISSION TO BEGIN NEGOTIATIONS

FOR AN EC COMMON BORROWING AND AGREED TO A 75 PERCENT INCREASE IN THE EUROPEAN INVESTMENT BANK'S CAPITAL. END SUMMARY.

2. EC ECONOMIC SITUATION: NEW COUNCIL PRESIDENT COLOMBO OF ITALY TOLD THE PRESS THAT THE MINISTERS AGREED WITH THE COMMISSION'S CONCLUSIONS REGARDING THE EC'S UNCERTAIN ECONOMIC PROSPECTS (SEE REF A). HOWEVER, THE MINISTERS THOUGHT THE COMMISSION'S PROJECTION OF A 4 PERCENT GROWTH IN THE EC GDP FOR 1975 WAS TOO OPTIMISTIC. THE COUNCIL BELIEVES THAT EXPANSIONARY MEASURES HAVE SO FAR FAILED TO OBTAIN THEIR EXPECTED RESULTS. THE COUNCIL PLANS TO REASSESS THE SITUATION IN SEPTEMBER.

3. UK PAYMASTER GENERAL DELL ASKED FOR PROMPT EXPANSIONARY MEASURES BY THE FRG AND DUTCH. BOTH DELEGATIONS RESPONDED THAT THEY WOULD CONSIDER NO FURTHER EXPANSIONARY MEASURES UNTIL THEY DECIDE ON NEXT YEAR'S BUDGET THIS FALL. THE DUTCH CALLED UPON THE COMMISSION TO LOOK INTO WAYS TO EASE STRUCTURAL UNEMPLOYMENT. THE ITALIANS SAID THEY WERE PLANNING NEW MEASURE TO STIMULATE THEIR INDUSTRIAL EXPORTS.

4. FRANCE IS CURRENTLY STUDYING POSSIBLE ADDITIONAL EXPANSIONARY MEASURES AND SHOULD HAVE A PROGRAM READY IN SEPTEMBER. FRANCE ASKED THAT THE EC ADOPT A COORDINATED ECONOMIC PROGRAM WITH INCENTIVES TO SELECTED SECTORS. FRANCE DISAGREED WITH THE COMMISSION'S TRADE PROJECTIONS BECAUSE IT THOUGHT THE CURRENT IMBALANCE IN EXCHANGE RATES WOULD HINDER FUTURE EC TRADE. IRELAND SAID THAT ITS RECESSION HAD BECOME SO SEVERE THAT IT NOW PLANNED TO TAKE FURTHER EXPANSIONARY MEASURES. THE GROWING LEVEL OF IRISH UNEMPLOYMENT MUST BE CORRECTED, EVEN IF THESE MEASURES ACCELERATE PRICE INFLATION.

5. SNAKE OPERATIONS: THE COUNCIL NOTED WITH LIMITED OFFICIAL USE

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SATISFACTION FRANCE'S DECISION TO RE-ENTER THE SNAKE (SEE REF B). THE COUNCIL ALSO TOOK NOTE OF THE EC CENTRAL BANK GOVERNORS' DECISION CONCERNING TECHNICAL CHANGES IN SNAKE OPERATIONS (SEE REF C). (COPIES OF THIS DECISION WILL BE SENT TO ALL ADDRESSEES.) THE COUNCIL STATED THAT ANY DECISION ON SWISS ASSOCIATION WITH THE SNAKE MUST BE CONSIDERED BY THE RESPONSIBLE EC BODIES, INCLUDING

THE COUNCIL.

6. THE EC CENTRAL BANK GOVERNORS WERE ASKED TO CONTINUE TO PREPARE THE TECHNICAL ASPECTS OF SWISS ENTRY. COMMISSION OFFICIALS SAY THE ONLY REMAINING TECHNICAL POINT IS THE RATE AT WHICH THE SWISS FRANC MIGHT ENTER THE SNAKE. THEY ADD, HOWEVER, THAT FRANCE MAY ATTEMPT TO BROADEN THE DISCUSSIONS BEYOND THESE TECHNICAL ISSUES.

7. FRANCE AT BOTH THE COUNCIL MEETING AND IN A SEPARATE PRESS RELEASE SAID ITS RE-ENTRY INTO THE SNAKE WAS DESIGNED TO REINFORCE EUROPEAN MONETARY UNION. IT ALSO REAFFIRMED THE PRIORITY THAT FRANCE GIVES TO RETURNING TO FIXED EXCHANGE RATES. THE FRENCH PRESS RELEASE ADDS: "THE UNCONTROLLED FLOATING OF THE DOLLAR REPRESENTS A REAL THREAT BOTH FOR THE DEVELOPING COUNTRIES AND THE INDUSTRIALIZED COUNTRIES. IN PARTICULAR, THE UNDER-EVALUATION OF THE DOLLAR COMPARED WITH ALL THE EUROPEAN CURRENCIES IS A SOURCE OF GREAT CONCERN FOR THE EUROPEAN COUNTRIES. THE

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FIXING OF A COMMUNITY VALUE FOR THE DOLLAR AT A SUITABLE LEVEL IS A GOAL WHICH THE FRENCH GOVERNMENT WILL PURSUE WITH THE COMMUNITY. ONLY A STRENGTHENING OF EUROPEAN SOLIDARITY WILL PERMIT EFFECTIVE ACTION TO BE ACHIEVED IN THIS FIELD."

8. PREPARATION FOR EUROPEAN COUNCIL MEETING:
FRANCE ASKED TO ADD A DISCUSSION OF ECONOMIC AND FINANCIAL ISSUES TO THE AGENDA OF THE EUROPEAN COUNCIL MEETING (HEADS OF GOVERNMENT) TO ASSURE HIGHEST-LEVEL POLITICAL ATTENTION. FOURCADE HOPES THAT THE HEADS OF STATE WILL ASK THE EC TO LOOK INTO THE COMPLEX OF INTERNATIONAL MONETARY AND ECONOMIC ISSUES AND WILL AGREE TO INTENSIFY DISCUSSIONS IN APPROPRIATE INTERNATIONAL FORA. ITALIAN BANK GOVERNOR CARLIE CONCURRED IN THE GENERAL THRUST OF FOURCADE'S REMARKS. CARLI ADDED THAT THE UNDER-VALUATION OF THE YEN HAD ALSO RESTRAINED EC TRADE.

9. INTERNATIONAL MONETARY REFORM: THE COUNCIL
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DISCUSSED THE MONETARY COMMITTEE'S REPORT ON REFORM OF THE INTERNATIONAL MONETARY SYSTEM (SEE REF D). THE MEMBER STATES DIFFER ON SEVERAL OF THE ISSUES, PARTICULARLY ON EXCHANGE RATE ARRANGEMENTS. BELGIAN FINANCE MINISTER DE CLERCQ FELT THAT REPEATED POSTPONEMENT OF A DECISION ON THESE ISSUES WAS HAVING AN ADVERSE IMPACT ON PUBLIC CONFIDENCE. FOURCADE ASKED FOR CONCRETE PROPOSALS.

10. FRG FINANCE MINISTER APEL OPINED THAT IF FRANCE PERSISTED IN ITS DESIRE TO RE-ESTABLISH FIXED PARITIES THERE WOULD BE LITTLE LIKELIHOOD OF OBTAINING AGREEMENT AT THE NEXT INTERIM COMMITTEE MEETING. APEL SPECULATED THAT PERHAPS THE GOF WANTED TO HOLD OFF ON A DECISION SO THAT THESE ISSUES COULD BE TAKEN UP AT THE GOF'S PROPOSED SUMMIT MEETING AMONG MAJOR INDUSTRIALIZED COUNTRIES.

11. COMMISSION OFFICIALS SAY THE COUNCIL MADE VIRTUALLY NO PROGRESS IN NARROWING ITS DIFFERENCES ON INTERNATIONAL MONETARY REFORM. THE GOF CONTINUES TO INSIST ON SETTING A FIXED TIME PERIOD FOR THE TRANSITION FROM FLEXIBLE TO FIXED PARITIES. THE COUNCIL ASKED THE MONETARY COMMITTEE TO TAKE THESE ISSUES UP AGAIN. THE COMMITTEE WILL MEET ON AUGUST 11-12 BUT COMMISSION OFFICIALS CONTINUE TO BELIEVE THAT

THE REMAINING DIFFERENCES CAN ONLY BE SOLVED AT HIGH
POLITICAL LEVELS.

12. BORROWING NEGOTIATIONS AUTHORIZED: ITALY AND
IRELAND HAVE NOW SUBMITTED FORMAL REQUESTS FOR A
LOAN UNDER THE EC COMMON BORROWING FACILITY. IRISH
OFFICIALS SAY, HOWEVER, THAT THEY WANT TO KNOW WHAT
THE LOAN TERMS WILL BE BEFORE MAKING A FINAL
DECISION ON A BORROWING. THE COUNCIL HAS NOW
AUTHORIZED THE COMMISSION TO UNDERTAKE NEGOTIATIONS
TO MAKE BORROWINGS ON BEHALF OF THE EC. DELL SAID
THE UK HAD NOT RULED OUT THE POSSIBILITY OF ALSO
APPLYING FOR A LOAN.

13. EIB CAPITAL INCREASE: FOLLOWING THE COUNCIL
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MEETING, THE FINANCE MINISTERS CONVENED AS THE
EUROPEAN INVESTMENT BANK'S BOARD OF GOVERNORS.
THEY CONSIDERED AN EIB STAFF PROPOSAL TO INCREASE
THE BANK' SUBSCRIBED CAPITAL BY 150 PERCENT THE
BOARD CUT TIS REQUEST IN HALF. IT AGREED TO A
75 PERCENT CAPITAL INCREASE WHICH RAISES THE BANK'S
CAPTIAL TO 3,544 MILLION UNITS OF ACCOUNT (ABOUT
\$4.30 BILLION). TEN PERCENT OF THIS INCREASE WILL
BE PAID IN BY THE MEMBER STATES OVER A FOUR-YEAR
PERIOD . THE COUNCIL'S DECISION MUST NOW BE RATIFIED
BY NATIONAL PARLIAMENTS. THE BANK'S STAFF WANTED
THE PAID IN CAPITAL TO AMOUNT TO 20 PERCENT OF THE
SUBSCRIPTION BUT BELIEVE, THAT THE BOARD'S DECISION
WILL ENABLE THE EIB TO SUSTAIN ITS EXPANSION PLANS
(SEE REF E).

14. ROME'S MESSAGE (REF F) RECEIVED SUBSEQUENT TO
PREPARATION OF THIS TELEGRAM.
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